

STAFF REPORT

Date: May 9, 2023

To: Board of Directors
From: John Bosler, General Manager/CEO
Agenda Title: **Public Hearing – Proposed Adjustments to CVWD Local Sewer Rate and IEUA Treatment Pass-Through Charge, FY 2024-28**

Purpose

The Board of Directors is asked to adopt an increase to the CVWD Local Sewer Service Charge. Staff has conducted a cost of service study for Sewer services covering a time frame of 5 fiscal years from July 1, 2023 through June 30, 2028. The study reveals that Sewer rates need to be adjusted on an annual basis in order to generate additional revenue to provide for increases in the cost of operational expenses, capital improvements, and maintaining minimum reserve levels.

Also, the Board of Directors is asked to adopt an increase to the Inland Empire Utilities Agency (IEUA) Sewer Treatment Pass-Through Charge from \$21.86 to \$23.39 effective for July 1, 2023, and to continue the automatic adjustment of the rate in proportion to any rate increases by the IEUA from July 1, 2024 through June 30, 2028. Any rate change in the Sewer Treatment – IEUA charge will be directly proportionate with any IEUA rate increase.

A Public Hearing must be held for the consideration of the proposed sewer rate increases. A Proposition 218 Notice was mailed to the subject property owners and customers of record to explain the Public Hearing process.

Background/Analysis

The Cucamonga Valley Water District (District) charges most customers within its service area a Local Sewer Service Charge. This charge is not imposed on customers who have septic systems or who receive sewer service from our neighboring cities of Fontana, Ontario or Upland. The District bills customers on a monthly basis and the rates consist of two components: (1) a charge for capital replacement, operations, maintenance, billing, customer service and other related costs (CVWD Local Sewer Service Charge); and (2) a wastewater treatment charge (Treatment Charge-IEUA) to recover the wholesale charge imposed on CVWD by the IEUA, the agency that treats and disposes of sewage transmitted by CVWD.

District staff prepared a Wastewater Cost of Service Rate Study and within that study conducted a financial analysis of the CVWD Local Sewer Service Charge. Through this Rate Study, staff determined that annual adjustments are necessary to offset increasing operating and capital improvement costs. The current monthly CVWD Local Sewer Service Charge is \$5.73, which has not been changed since 7/1/2013. This proposed rate adjustment equates to an impact of only 46¢ per month for residential customers in fiscal year 2024.

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As the Revenue Requirement Projection table below indicates, rate adjustments offset the effects of future cost inflation and maintain the Sewer Fund reserves at the minimum required level, while utilizing the existing healthy Capital Reserves for funding of capital improvement projects.

Revenue Requirement Projection - SEWER FUND							
	FY2023 Budgeted	FY2023 Est. Actuals	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected	FY2028 Projected
Projected EDU's (1% Increase)	819,836	832,336	839,390	846,514	853,708	860,975	868,313
Revenues:							
Local Service Charge (CVWD)	\$4,788,662	\$4,834,456	\$5,284,824	\$5,753,179	\$6,263,309	\$6,816,215	\$7,412,879
Development fees	727,698	602,783	628,500	1,721,833	1,143,333	1,143,333	780,000
Investment Income	280,155	548,500	575,925	604,721	634,957	666,705	700,040
Treatment Charge (IEUA)	17,921,619	18,194,862	19,633,332	20,985,082	22,222,019	23,530,447	24,920,583
CIP funding from Reserves	1,700,000	3,354,514	5,359,250	4,200,000	6,600,000	2,269,000	4,660,000
Total Revenues	25,418,134	27,535,115	31,481,831	33,264,815	36,863,618	34,425,700	38,473,502
Expenses:							
Wastewater Collection	2,047,841	2,039,158	2,337,348	2,461,558	2,573,043	2,690,143	2,813,148
IEUA Treatment Charges	17,921,619	18,194,862	19,633,332	20,985,082	22,222,019	23,530,447	24,920,583
Customer Accounts	620,680	616,073	704,251	739,444	769,958	801,898	835,343
General and Administration	3,260,185	3,032,508	3,611,227	3,757,706	3,884,760	4,017,526	4,156,271
Capital Projects	2,950,000	3,360,250	5,359,250	5,218,200	7,094,000	2,969,000	5,160,000
Replenish Reserves	-	-	-	102,825	319,838	416,686	588,157
Total Expenses	26,800,325	27,242,850	31,645,408	33,264,815	36,863,618	34,425,700	38,473,502
Excess Revenues over Expenses (Deficit)	(\$1,382,191)	\$292,265	(\$163,577)	\$-	\$-	\$-	\$-

Table footnote: Amounts shown in red are estimated for the purpose of this projection. The estimated rate adjustment for the IEUA Treatment Charge in FY2026 through FY2028 is 5% per year.

The proposed monthly CVWD Local Sewer Service Charge rate of \$6.19 would be effective for the fiscal year beginning July 1, 2023, and would be followed by annual adjustments ranging between 50¢ and 62¢ per month for residential customers in each of the four subsequent fiscal years (see table below).

Rate Components	Current Rate Effective 7/1/2022	Proposed Rate Effective 7/1/2023	Proposed Rate Effective 7/1/2024	Proposed Rate Effective 7/1/2025	Proposed Rate Effective 7/1/2026	Proposed Rate Effective 7/1/2027
Local Service Charge - CVWD	\$5.73	\$6.19	\$6.69	\$7.23	\$7.81	\$8.43
CVWD Annual Increase (\$)		\$0.46	\$0.50	\$0.54	\$0.58	\$0.62
Treatment Charge - IEUA	21.86	23.39	24.79	Pass-Through	Pass-Through	Pass-Through
IEUA Annual Increase (\$)		\$1.53	\$1.40	TBD	TBD	TBD
Combined Rate per EDU	\$27.59	\$29.58	\$31.48	TBD	TBD	TBD
Combined Annual Increase (%)		7.2%	6.4%	N/A	N/A	N/A

The IEUA Board of Directors adopted an increase in the wholesale charge it imposes on CVWD for the treatment and disposal of the wastewater CVWD collects and transmits to IEUA. The current monthly IEUA Sewer Treatment Charge of \$21.86 will increase to \$23.39 beginning July 1, 2023. This is an increase of 7%, or \$1.53 per month for residential customers. The IEUA Sewer Treatment Charge will further increase to \$24.79 beginning July 1, 2024, an increase of 6%. IEUA has indicated that these increases are necessary to partially recover increased costs for chemicals, electricity, and planned improvements to its sewer treatment system during a high inflation economy. The IEUA Board of Directors adopted these rates at their April 19, 2023 Board meeting.

In addition, IEUA has indicated that future rate adjustments will be required. Therefore, staff is recommending the authorization of a pass-through rate for IEUA's Sewer Treatment Charge to our customers for fiscal years 2026 through 2028.

Future Pass-Through Rate Adjustments

Effective January 1, 2009, AB 3030 provides the District with the authority to adopt a rate structure with automatic adjustments that pass-through to customers their proportionate share of rate increases which are imposed on the District. Such a rate structure can be used to pass through future increases in the IEUA's Sewer Treatment Charge. AB 3030 limits automatic adjustments to a time period that cannot exceed five years. The District proposes the adoption of the pass-through rate for a five-year period effective from July 1, 2023 through June 30, 2028, pursuant to the requirements of Proposition 218 (Prop 218).

In each subsequent year, for the remaining three years, the Pass-Through Rate would be automatically adjusted based on the increase in the IEUA Treatment Charge. The automatic adjustment would only be implemented in those fiscal years that IEUA adopts an increase in said Sewer Treatment Charge.

In the remaining three years, the notice of the automatic adjustment must be given not less than 30 days before the effective date of the adjustment and may be given by including the notice in the District's regular billing statement or by any other mailing by the District to the address to which the District mails the billing statement.

Public Hearing Process

Pursuant to the requirements of Prop 218 the District provided property owners and customers-of-record a written notice at least 45 days in advance of the public hearing. The analysis, justification and proposed ordinance were made available in the District's web site and were available at the Customer Service counter. In addition, a Notice of Public Hearing and Ordinance Summary were published in the Inland Valley Daily Bulletin in accordance with the Water Code. Staff has implemented the following timeline that meets Prop 218 requirements:

Date	Action
05/09/2023	Staff presentation to the full Board of Directors for consideration and setting of Public Hearing.
05/12/2023	Protest notice mailed to property owners and customers-of-record
06/27/2023	Public Hearing and consideration of any protests
07/01/2023	Effective date for CVWD Local Sewer Service Charge and Sewer Treatment Pass-Through Charges

Alignment with Strategic Goals

A key element to the District's vision are to maintain high quality sewer transmission service, provide excellent customer service, and to promote good stewardship of financial resources through accountability.

Fiscal Impact

The proposed rate adjustment will increase sewer charges by \$386,119 annually (46¢ per month for residential customers), while the adjustment proposed by IEUA on July 1, 2023, will result in an estimated additional total annual Pass-Through charge of \$1,284,267 to sewer customers.

Recommendation

Staff recommends that the Board of Directors adopt Ordinance No. 2023-6-1 to implement adjustments to CVWD Local Sewer Service Rates and IEUA Sewer Treatment Pass-Through Charges as documented in the 2023 Wastewater Cost of Service Rate Study for the five fiscal years 2024-2028.

Attachments: Ordinance No. 2023-6-1
Wastewater Cost of Service Rate Study Fiscal Years 2024-2028
PowerPoint Presentation

Submitted by: Chad Brantley, Director of Finance and Technology Services

Prepared by: Agnes Boros, Finance Manager

APPENDIX B – PROJECTED CASH RESERVE BALANCES

The following table shows projected sewer utility fund cash reserve balances from FY2023 through FY2028:

Table B
Projected Cash Reserve Balances
Fiscal Years

	2023	2024	2025	2026	2027	2028
Beginning Cash Reserves						
Development Fees*	\$ 1,884,762	\$ 833,031	\$ 1,202,281	\$ 924,114	\$ 567,447	\$ 510,780
Capital Project Reserve	19,000,000	19,000,000	16,000,000	13,000,000	10,000,000	10,000,000
Capital Emergency Reserve	838,000	838,000	838,000	838,000	838,000	838,000
Administrative Capital Impr	185,000	185,000	185,000	185,000	185,000	185,000
Operating Reserve	5,980,068	5,949,716	5,121,639	5,455,431	4,315,936	4,202,289
Compensated Absences Reserve	438,655	450,000	450,000	450,000	450,000	450,000
Total Beginning Balance	28,326,485	27,255,747	23,796,920	20,852,545	16,356,383	16,186,069
Cash Sources (Uses)						
Operating Revenues	23,029,318	24,918,156	26,738,261	28,485,328	30,346,662	32,333,462
Operating Expenses	(23,882,600)	(26,286,158)	(27,943,790)	(29,449,780)	(31,040,014)	(32,725,345)
Investment Income	548,500	575,925	604,721	634,957	666,705	700,040
Development Fees	602,783	628,500	1,721,833	1,143,333	1,143,333	780,000
Capital Improvements	(3,360,250)	(5,359,250)	(5,218,200)	(7,094,000)	(2,969,000)	(5,160,000)
Operating Reserve	1,991,511	2,064,000	1,152,800	1,784,000	1,682,000	2,024,000
Net Sources (Uses)	(1,070,738)	(3,458,827)	(2,944,375)	(4,496,162)	(170,314)	(2,047,843)
Ending Cash Reserves						
Development Fees*	833,031	1,202,281	924,114	567,447	510,780	490,780
Capital Project Reserve	19,000,000	16,000,000	13,000,000	10,000,000	10,000,000	8,000,000
Capital Emergency Reserve	838,000	838,000	838,000	838,000	838,000	838,000
Administrative Capital Impr	185,000	185,000	185,000	185,000	185,000	185,000
Operating Reserve	5,949,716	5,121,639	5,455,431	4,315,936	4,202,289	4,174,446
Compensated Absences Reserve	450,000	450,000	450,000	450,000	450,000	450,000
Total Ending Cash Balance	\$27,255,747	\$23,796,920	\$20,852,545	\$16,356,383	\$16,186,069	\$14,138,226

*Development fee Reserves ar restricted in accordance with law.

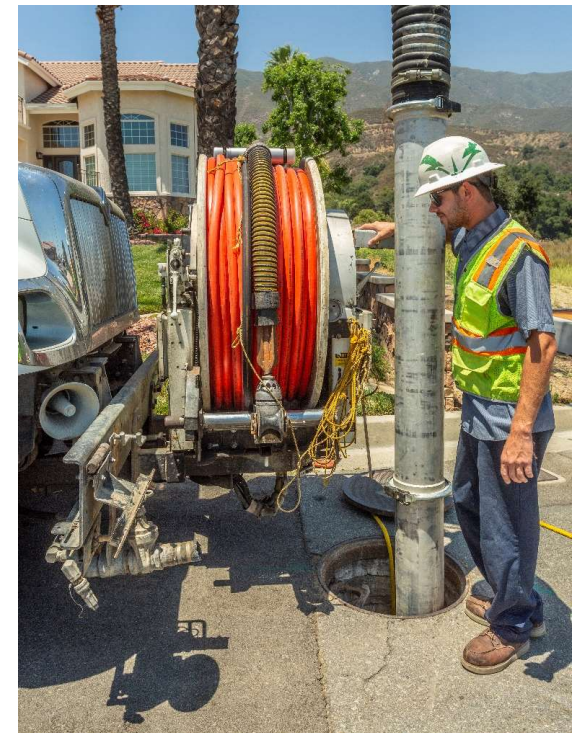


Public Hearing – Proposed CVWD Local Sewer Rates and IEUA Treatment Pass-Through Charges Fiscal Years 2024 through 2028

Presented to: Board of Directors
June 27, 2023

Background of Sewer Fund

- Sewer Department operation and function
- Rates and charges
 - CVWD Local Service Charge
 - IEUA Treatment Charge
 - Flat monthly charges for residential customers
- Inland Empire Utilities Agency
 - Separate District Board
 - Sets their own rates
 - Regional operating scope
- CVWD Board direction and support – control costs
- Maintenance personnel accomplishments and efficiency



Sewer Rates

- Current rate series effective until June 30, 2024
 - Included provision for pass-through rate only, no CVWD rate changes
 - Drastic change in economic conditions and inflation
 - Re-evaluate Local Sewer Service Rate
- Internal Rate Study
 - Cost of service analysis completed by CVWD staff
 - Start new 5-year rate series
- CVWD Local Service Charge
 - No change since 7/1/2013
 - Healthy Operating Reserves support low impact on customers
 - Planned Capital Improvement Projects are significant
- IEUA Treatment Charges
 - Increased rates were adopted by the IEUA Board of Directors on 4/19/2023 for FY2024 & FY2025
 - Pass-Through Charges will match any adjustments in future years FY2026 through FY2028
- CVWD responsible for collecting both rate components



Sewer Rate Study Assumptions

- Moderate 1% increase in annual EDUs (Equivalent Dwelling Units)
- Utilize Capital and Development Fee Reserves to finance Capital Improvement Projects
- Local Service Charge should cover Operating Expenses
- Annual line inspection, cleaning, and repairs
- Project future inflation rates



Rate Study Results

- Recommend annual adjustments in CVWD Local Sewer Service Charge
 - Monthly impact to residential customers of only 46¢
 - To cover annual operating and maintenance cost
 - Investment in long-term infrastructure
 - Maintain moderate operating reserves
- Leveraging Reserves for Lower Rates:
 - Capital Improvement Reserve and the Developer Fee Reserve
 - Pays for Capital Improvement Projects
 - Use of reserves will lower the Sewer Fund's Cash Reserve level by 50%
- IEUA Treatment charge is a Pass-Through Rate
 - Remitted to IEUA after being collected from customers by CVWD



Revenue Requirement

Revenue Requirement Projection - SEWER FUND							
	FY2023 Budgeted	FY2023 Est. Actuals	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected	FY2028 Projected
Projected EDU's (1% Increase)	819,836	832,336	839,390	846,514	853,708	860,975	868,313
Revenues:							
Local Service Charge (CVWD)	\$4,788,662	\$4,834,456	\$5,284,824	\$5,753,179	\$6,263,309	\$6,816,215	\$7,412,879
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Total Revenues	25,418,134	27,535,115	31,481,831	33,264,815	36,863,618	34,425,700	38,473,502
Expenses:							
Wastewater Collection	2,047,841	2,039,158	2,337,348	2,461,558	2,573,043	2,690,143	2,813,148
IEUA Treatment Charges	17,921,619	18,194,862	19,633,332	20,985,082	22,222,019	23,530,447	24,920,583
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Total Expenses	26,800,325	27,242,850	31,645,408	33,264,815	36,863,618	34,425,700	38,473,502
Excess Revenues over Expenses (Deficit)	(\$1,382,191)	\$292,265	(\$163,577)	\$-	\$-	\$-	\$-

Sewer Fund Cash Reserves

Cash Reserves Projection - SEWER FUND							
	FY2023 Budgeted	FY2023 Est. Actuals	FY2024 Projected	FY2025 Projected	FY2026 Projected	FY2027 Projected	FY2028 Projected
Beginning Cash Reserves	\$28,326,485	\$28,326,485	\$27,255,747	\$23,796,920	\$20,852,545	\$16,356,383	\$16,186,069
Inflows:							
CVWD Revenues	4,788,662	4,834,456	5,284,824	5,753,179	6,263,309	6,816,215	7,412,879
Investment Income	280,155	548,500	575,925	604,721	634,957	666,705	700,040
IEUA Sewer Pass-Through	17,921,619	18,194,862	19,633,332	20,985,082	22,222,019	23,530,447	24,920,583
Development Fees	727,698	602,783	628,500	1,721,833	1,143,333	1,143,333	780,000
Total Inflows	23,718,134	24,180,601	26,122,581	29,064,815	30,263,618	32,156,700	33,813,502
Outflows:							
CVWD Expenses	5,928,706	5,687,738	6,652,826	6,958,708	7,227,761	7,509,567	7,804,762
IEUA Collection Pass-Through	17,921,619	18,194,862	19,633,332	20,985,082	22,222,019	23,530,447	24,920,583
Capital Improvements	2,950,000	1,368,739	3,295,250	4,065,400	5,310,000	1,287,000	3,136,000
Total Outflows	26,800,325	25,251,339	29,581,408	32,009,190	34,759,780	32,327,014	35,861,345
Net Inflows (Outflows)	(3,082,191)	(1,070,738)	(3,458,827)	(2,944,375)	(4,496,162)	(170,314)	(2,047,843)
Ending Cash Reserves	\$25,244,294	\$27,255,747	\$23,796,920	\$20,852,545	\$16,356,383	\$16,186,069	\$14,138,226

Sewer Rate Increase - IEUA

- IEUA Treatment Charge
 - \$21.86 per month currently
 - \$23.39 per month in July 2023
 - \$24.79 per month in July 2024
 - Rates set by IEUA in 2023 study
- California Law AB3030
 - Allows pass-through rates and automatic adjustments
 - Protects public agencies like CVWD
 - 5-year limit
 - Majority protest rules apply to CVWD
 - Protest against CVWD does not apply to IEUA



2023 Increase of
\$1.53 Per Month

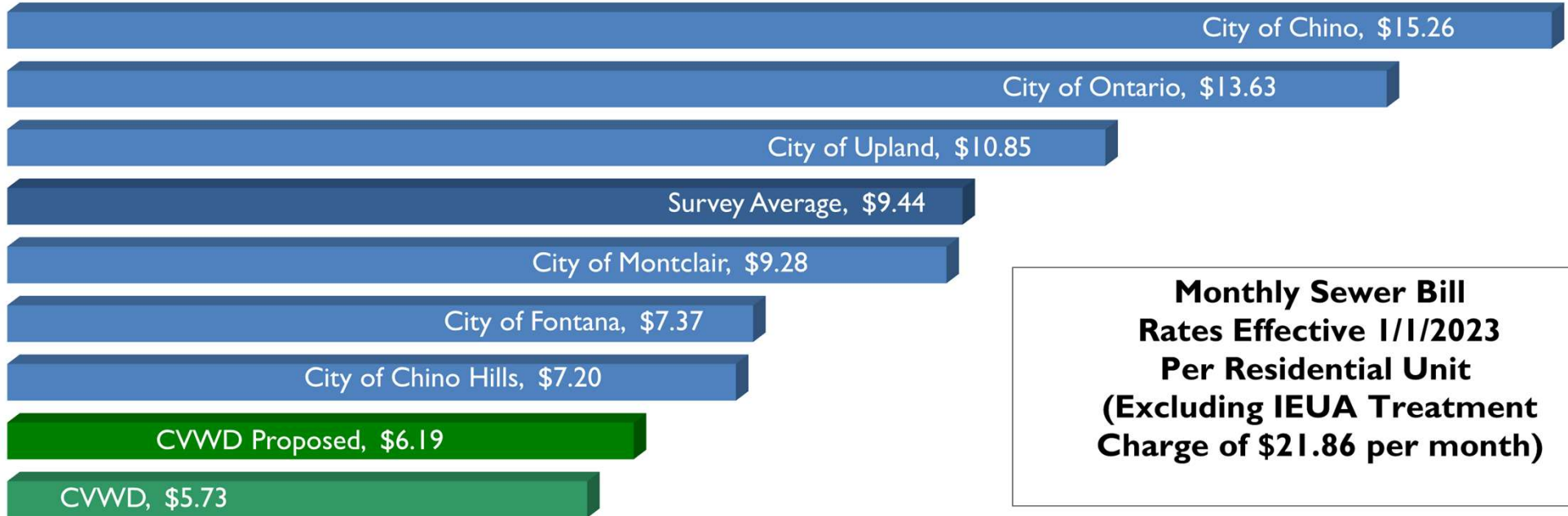
Customer Impacts

- Rate design is based on EDU (Equivalent Dwelling Units)
- CVWD Local Service Charge – Proposed Adjustments of 46¢ to 62¢ per month
 - Estimated annual total impact during FY2024: \$386,119
- IEUA Treatment Charge adopted for FY2024 & FY2025
 - Estimated annual impact to customers during FY2024: \$1,284,267
- Customers will be notified of changes in the IEUA Pass-Through Rate after IEUA Board adoption

Rate Components	Current Rate Effective 7/1/2022	Proposed Rate Effective 7/1/2023	Proposed Rate Effective 7/1/2024	Proposed Rate Effective 7/1/2025	Proposed Rate Effective 7/1/2026	Proposed Rate Effective 7/1/2027
Local Service Charge - CVWD	\$5.73	\$6.19	\$6.69	\$7.23	\$7.81	\$8.43
CVWD Annual Increase (\$)		\$0.46	\$0.50	\$0.54	\$0.58	\$0.62
<i>Treatment Charge - IEUA</i>	<i>21.86</i>	<i>23.39</i>	<i>24.79</i>	<i>Pass-Through</i>	<i>Pass-Through</i>	<i>Pass-Through</i>
<i>IEUA Annual Increase (\$)</i>		<i>\$1.53</i>	<i>\$1.40</i>			
Combined Rate per EDU	\$27.59	\$29.58	\$31.48	TBD	TBD	TBD
Combined Annual Increase (%)		7.2%	6.4%			

Other Agency Comparison

Agency Sewer Transmission Rate Comparison



**Monthly Sewer Bill
Rates Effective 1/1/2023
Per Residential Unit
(Excluding IEUA Treatment
Charge of \$21.86 per month)**

Timeline & Process

Target Date		Action Item
April 20	Done	GPA Committee Reviewed Proposition 218 Notice Draft
May 3	Done	Finance Committee Reviewed Proposition 218 Notice Draft
May 9	Done	Board Review, Proposition 218 Notice Approval and Set Public Hearing
May 12	Done	Mail Proposition 218 Notice
May 15	Done	Publish 1 st Newspaper Notice
May 22	Done	Publish 2 nd Newspaper Notice
June 27		Board of Directors Conduct Public Hearing and Consider Proposed Rates
July 1		New Rates Go Into Effect

Conclusion and Recommendation

- Rate adjustments are necessary to:
 - Cover the cost of providing service
 - Invest in long-term capital projects and improvements
 - Pass through IEUA charges imposed on CVWD
- Public communication and outreach
 - Prop 218 Notice mailed
 - Newspaper summary published
 - Open public hearing
 - Participation opportunities explained



For More Information Contact

- (909) 987-2591 Operator / Customer Service
- Chad Brantley, Director of Finance and Technology Services
- custserv@cvwdwater.com
- boardmember@cvwdwater.com
- www.cvwdwater.com

Thank You!